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11 HEALTH CARE DISTRICT

12 **UNITED STATES BANKRUPTCY COURT**
13 **EASTERN DISTRICT OF CALIFORNIA**
14 **SACRAMENTO DIVISION**

15 In re:

16 SURPRISE VALLEY HEALTH CARE
17 DISTRICT

18 Debtor.

CASE NO. 18-20070
Chapter 9
DCN: SVH-11

**MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT OF
MOTION TO APPROVE SETTLEMENT
BETWEEN DEBTOR SURPRISE
VALLEY HEALTH CARE DISTRICT
AND CADIRA GROUP HOLDINGS, LLC;
DECLARATIONS OF WILLIAM BOSTIC
AND DON BRANDON IN SUPPORT
THEREOF**

DATE: December 18, 2019
TIME: 2:00 p.m.
CTRM: 32

Judge: Hon. Christopher D. Jaime

22
23 Surprise Valley Health Care District (the “Debtor” or the “District”), debtor in the above-
24 captioned Chapter 9 case (the “Chapter 9 Case”), submits this Memorandum of Points and
25 Authorities in support of Debtor’s *Motion to Approve Settlement Between Debtor and Cadira*
26 *Group Holdings, LLC* (the “Motion”). In support of the Motion, the Debtor submits the
27 Declarations of William Bostic (the “Bostic Decl.”) and Don Brandon (the “Brandon Decl.”) filed
28 concurrently herewith, and respectfully states as follows:

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1. INTRODUCTION

Pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure, the District seeks Court approval of that certain *Settlement Agreement and Mutual Release* (“Settlement Agreement”) by and among Cadira Group Holdings, LLC (“Cadira”) and the District. The Settlement Agreement is attached to the Appendix of Exhibits (the “Appendix”) as **Exhibit A**.

On January 4, 2018 (“Petition Date”), the District filed a voluntary petition pursuant to Chapter 9 of Title 11 of the United States Code (the “Bankruptcy Code”), thereby commencing this Chapter 9 Case.¹ The District is a special health care district formed under the California local Healthcare District Law, and that operates medical facilities known as the Surprise Valley Community Hospital (“Hospital”) and the Surprise Valley Clinic (“Clinic”) for the benefit of the District’s 1500 residents.² On the Petition Date, the Debtor faced mounting creditor lawsuits and operated at a negative cash flow of \$70,000 to \$100,000 per month, with nearly \$4,000,000 in accrued and unpaid obligations.³

Early in this case, the District sought, and obtained, Court approval to enter into a series of transactions (the “Transactions”)⁴ that would culminate in a sale of substantially all of the District’s assets to Cadira (the “Sale”), who would then operate the Hospital and Clinic for the benefit of the District’s residents. [See Exhibit F & G.] In furtherance of the Transactions, the District entered into the Credit Agreement wherein Cadira financed the District’s purchase of member interests in a lab owned by Cadira, executed a management agreement whereby Cadira

¹ Bostic Decl. at ¶ 9.

² Bostic Decl. at ¶ 4.

³ Bostic Decl. at ¶ 7.

⁴ As set forth below, the Transactions consist of the following agreements: (i) the Credit Agreement, between the District, as borrower, and Cadira as lender, attached to the Appendix as **Exhibit B**; (ii) a Limited Liability Company Purchase Agreement, between the District, as purchaser, and Cadira, as seller (the “Lab Purchase Agreement”) attached to the Appendix as **Exhibit C**; (iii) the Lab Management Agreement, between the District as owner, and Cadira, as manager (the “Lab Management Agreement”) attached to the Appendix as **Exhibit D**; and (iv) the APA between the District, as seller, and Cadira, as purchaser attached to the Appendix as **Exhibit E** (together with the Credit Agreement, the Lab Purchase Agreement, the Lab Management Agreement, the “Agreements”).

1 would manage the lab, and received approximately \$743,000 for operations.⁵ The Lab Purchase
2 from Cadira was intended to allow for further streams of revenue.⁶ The Transactions were all
3 incidental to the proposed Sale of the District's assets to Cadira. The Sale structure allowed the
4 Hospital to continue operating pending closing and funded approximately \$743,000 in operating
5 expenses.⁷ If the Transactions had closed, the Sale would have provided for the full repayment of
6 secured indebtedness and partial repayment of general unsecured creditors.⁸ Due to changed
7 circumstances, Cadira was unable to effectuate the purchase of the District's assets under the
8 APA.⁹

9 Under the Credit Agreement, Cadira presently holds a security interest in all of the
10 Debtor's assets.¹⁰ Cadira is consenting to release the security interest, and rescind the Lab
11 Purchase Agreement.¹¹ As the Lab is currently non-operational and is not generating any further
12 revenue, the efficient unwinding of the Lab Purchase and the return of the District to its original
13 position prior to the Lab Purchase Agreement is critical to the District's ability to move ahead
14 with its operations, as well as its ability to formulate a plan of adjustment in the Chapter 9 Case.¹²

15 Cadira has worked closely with the District to amicably resolve the issues presented by the
16 failure of the Transactions, including cooperating in a further marketing effort of the District's
17 Assets. After lengthy negotiations and exploration of feasible alternatives, the Debtor concluded
18 that the settlement reflected in the Settlement Agreement is in the best interests of the Debtor and

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21 ⁵ Bostic Decl. at ¶ 12.

22 ⁶ Bostic Decl. at ¶ 12.

23 ⁷ Bostic Decl. at ¶ 12.

24 ⁸ Bostic Decl. at ¶ 12.

25 ⁹ Settlement Agreement at p.2.

26 ¹⁰ See Exhibit F.

27 ¹¹ Settlement Agreement at 1.

28 ¹² Bostic Decl. at ¶ 13.

1 its creditors, and avoids the uncertainty and expense of litigation with Cadira.¹³ The following is a
2 brief summary of the key terms of the settlement agreed to by the Parties:

3 A. Rescission of the Lab Purchase Agreement.

4 The Parties agree to rescind the Lab Purchase Agreement (the “Rescission”), and each
5 Party shall take the necessary steps to ensure that all payments, benefits, or gains received through
6 the Lab Agreements are returned to the other party, except that the District shall retain the right to
7 collect on \$440,000 of patient charges generated as a result of work performed by the Lab and
8 invoiced under the Hospital’s billing system during the period in which the Lab Agreements were
9 in effect. Cadira shall return the Lab Purchase Price of \$2,500,000 to the District (the “Lab
10 Credit”).

11 B. Termination of the Lab Management Agreement.

12 The Parties will terminate the Lab Management Agreement concurrent with rescission of
13 the Lab Purchase Agreement.

14 C. Termination of the APA.

15 The Parties will terminate the APA.

16 D. The Credit Agreement.

17 The Parties agree that the Lab Credit shall be immediately applied to discharge the Lab
18 Indebtedness. In partial repayment of the \$743,000 advanced to the District by Cadira, the District
19 shall make a single payment of \$300,000 to Cadira (the “Cash Settlement Amount”). The balance
20 of the Credit Line Advance, less the Cash Settlement Amount, shall be repaid in full as an offset
21 against the District’s expenses and the District’s expenses shall correspondingly be deemed repaid
22 in full as a result of such offset. Upon receipt of the Cash Settlement Amount, all security
23 interests and liens granted to Cadira in or on any asset of the District shall be terminated, released,
24 and discharged in full. [Settlement Agreement at 1.]

25 The District has used the breathing space provided by its Chapter 9 filing and the cash
26 infusion provided by Cadira to overhaul its operations. It now believes that it can successfully

27 ¹³ Brandon Decl. at ¶¶ 4-7.
28

1 continue operations without the necessity of a sale after confirmation of its Chapter 9 plan. The
2 proposed settlement with Cadira paves the way to a Chapter 9 Plan and is in the best interest of
3 creditors and the Debtor. The District respectfully requests that this Court approve the Settlement
4 Agreement.

5 2. STATEMENT OF FACTS

6 A. Overview of the District's Operations

7 The District is a special health care district formed under the California Local Healthcare
8 District Law.¹⁴ The District operates medical facilities known as the Surprise Valley Community
9 Hospital (the "Hospital") and the Surprise Valley Clinic (the "Clinic").¹⁵

10 The District is located in Northeast California, at a 5,000 foot elevation in Cedarville, east
11 Modoc County. Since April 16, 1986, the District has provided medical services to approximately
12 1,500 people in the following communities: Fort Bidwell, Cedarville Rancheria, Warner
13 Mountains Indians, Lake City, Cedarville, and Eagleville (the "Communities").¹⁶ In addition, it
14 provides services to patients from all over Modoc County who make the trip over Cedar Pass and
15 into Surprise Valley.¹⁷ The Hospital has twenty-six beds—twenty-two skilled nursing beds, one
16 acute bed, and three swing beds.¹⁸ It has an emergency room, with a physician on standby at all
17 times.¹⁹ The hospital also provides a full service laboratory, x-ray services, and operates a 24-hour
18 ambulance service with a full-time paramedic on staff. Many community members are EMT-
19 certified and serve as part-time and on-call staff during the week.²⁰

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22 ¹⁴ Bostic Decl. at ¶ 4.

23 ¹⁵ Bostic Decl. at ¶ 5.

24 ¹⁶ Bostic Decl. at ¶ 5.

25 ¹⁷ Bostic Decl. at ¶ 6.

26 ¹⁸ Bostic Decl. at ¶ 6.

27 ¹⁹ Bostic Decl. at ¶ 6.

28 ²⁰ Bostic Decl. at ¶ 6.

1 B. The Bankruptcy Case And Relevant Background

2 Like many rural health care districts that have declared bankruptcy in recent years, the
3 Debtor struggled to maintain operations in light of significant economic challenges.²¹ Facing
4 mounting creditor lawsuits and operating at a negative cash flow of \$70,000 to \$100,000 per
5 month, with nearly \$4,000,000 in accrued and unpaid obligations, the District was faced with the
6 choice of closing the Hospital and Clinic or proceeding with an orderly transition of its operating
7 functions through a Chapter 9 bankruptcy filing.²²

8 On January 3, 2018, a trade creditor, Prime Time Healthcare, levied the District's bank
9 accounts, jeopardizing the District's ability to meet payroll and other financial obligations.²³ The
10 next day, on January 4, 2018 ("Petition Date"), Debtor filed a voluntary petition pursuant to
11 Chapter 9 of Title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing the
12 above-captioned Chapter 9 Case.²⁴

13 C. The Transactions at Issue

14 The Transactions at issue were designed to allow the Hospital to continue operating and to
15 provide funding of approximately \$1,300,000 for the full repayment of secured indebtedness and
16 partial repayment of general unsecured creditors.²⁵ The Transactions consist of the following
17 agreements, entered into on February 26, 2018: (i) the Credit Agreement, between the District, as
18 borrower, and Cadira as lender, attached to the Appendix as **Exhibit B**; (ii) a Limited Liability
19 Company Purchase Agreement, between the District, as purchaser, and Cadira, as seller (the "Lab
20 Purchase Agreement") attached to the Appendix as **Exhibit C**; (iii) the Lab Management
21 Agreement, between the District as owner, and Cadira, as manager (the "Lab Management
22 Agreement", and collectively with the Lab Purchase Agreement, the "Lab Agreements") attached
23

24 ²¹ Bostic Decl. at ¶ 7.

25 ²² Bostic Decl. at ¶ 7.

26 ²³ Bostic Decl. at ¶ 8.

27 ²⁴ Bostic Decl. at ¶ 9.

28 ²⁵ Bostic Decl. at ¶ 10.

1 to the Appendix as **Exhibit D**; and (iv) the APA (as amended, restated, extended, supplemented
2 or otherwise modified from time to time) between the District, as seller, and Cadira, as purchaser
3 attached to the Appendix as **Exhibit E** (together with the Credit Agreement, the Lab Purchase
4 Agreement, the Lab Management Agreement, the “Agreements”). [Settlement Agreement at p. 1;
5 *see also* Bostic Decl. at ¶ 11.]

6 Pursuant to the APA, the District agreed to sell substantially all of its assets free and clear
7 of any and all liens to Cadira in exchange for a purchase price of \$4,000,000 (the “Sale”).
8 [Settlement Agreement at p. 1.] Cadira would then operate the Hospital and Clinic for the benefit
9 of the District’s residents. [Settlement Agreement at p. 1.] The APA also required that the
10 District purchase substantially all of Cadira’s membership interest in Serodynamics, LLC a
11 Colorado limited liability company (the “Lab”) prior to the closing of the Transactions, for a
12 purchase price of \$2,500,000 (the “Lab Purchase Price”) pursuant to the Lab Purchase Agreement
13 (the “Lab Purchase”). [Settlement Agreement at p. 2.] Operations of the Lab were supposed to
14 provide an additional source of revenue for the District during the period prior to the closing of the
15 Sale. [Settlement Agreement at p. 2.] However, the Lab is currently non-operational and is not
16 generating any further revenue. Pursuant to the Lab Management Agreement, the District engaged
17 Cadira to manage the Lab on the terms set forth therein. [Settlement Agreement at p. 2.]

18 D. The Post-Petition Financing Order

19 To fund the Lab Purchase, and for the District to continue operating the Hospital and
20 Clinic pending the closing of the Sale, the District, subject to Bankruptcy Court approval, entered
21 into the Credit Agreement, whereby Cadira agreed to extend financing to the District in an amount
22 of up to \$4,000,000 (the “Facility”), of which \$1,500,000 would be available to fund the District’s
23 operations (the “Credit Line”), and \$2,500,000 would be used to finance the Lab Purchase (the
24 “Lab Indebtedness”). [Settlement Agreement at p. 2.]

25 On March 15, 2018, the Court entered an order (the “Financing Order”) pursuant to the
26 District’s *Motion For An Order (I) Granting Senior Secured Status To The Debtor’s Postpetition*
27 *Lender, (II) Authorizing Superpriority Administrative Expense Status For The Postpetition*
28 *Lender; (III) Finding That Prepetition Lienholders Are Adequately Protected; (IV) Modifying The*

1 *Automatic Stay; (V) Scheduling A Final Hearing Pursuant To Bankruptcy Rule 4001; And (VI)*
2 *Granting Related Relief* (the “Financing Motion”) that, *inter alia*, (i) granted a superpriority
3 priming lien to Cadira on substantially all of the District’s property on an interim basis, (ii) found
4 that Prepetition Secured Creditors are adequately protected with respect to Cadira’s priming lien,
5 and (iii) scheduled a final hearing on the Financing Motion to consider the entry of a final order
6 (the “Final Financing Order”). [Docket No. 58]. On March 22, 2018, the deadline for objections
7 to the entry of the Final Financing Order passed with no timely objections filed. On April 10,
8 2018, this Court entered the Final Financing Order granting the relief sought in the Financing
9 Motion on a final basis. [Docket No. 63]. The Final Financing Order is attached to the Appendix
10 as **Exhibit F**.

11 Pursuant to the Credit Agreement, Cadira advanced \$743,000 from the Credit Line to the
12 District to continue its operations (the “Credit Line Advance”). [Settlement Agreement at p. 2.]

13 E. The Sale Order

14 On April 18, 2018, the District filed its *Motion For An Order (1) Approving the Sale of*
15 *Substantially all of the Debtor’s Assets Free and Clear of all Liens, (2) Approving Of Debtor’s*
16 *Assumption And Assignment Of Certain Unexpired Leases And Executory Contracts And*
17 *Determining Cure Amounts And Approving Of Debtor’s Rejection Of Those Unexpired Leases*
18 *And Executory Contracts Which Are Not Assumed And Assigned; (3) Waiving the 14-Day Stay*
19 *Periods Set Forth In Bankruptcy Rules 6004(h) And 6006(d); And (4) Granting Related Relief*
20 (the “Sale Motion”) [Docket No. 64]. No party objected to the relief requested in the Sale
21 Motion. On May 30, 2018, the Court entered an order (the “Sale Order”) pursuant to the Sale
22 Motion that, *inter alia*, (i) authorized the sale of substantially all of the District’s assets to Cadira
23 free and clear of all liens, and (ii) authorized the consummation of all other transactions in the
24 APA. [Docket No. 78.] The Sale Order is attached to the Appendix as **Exhibit G**.

25 F. The Settlement Agreement

26 Due to changed circumstances, Cadira was unable to effectuate the Sale under the APA.
27 [Settlement Agreement at p. 2.] Following negotiations, the exchange of relevant documents, and
28 further analysis, the Parties wish to resolve their differences and to avoid the expense and

1 inconvenience of further litigation in connection with the Proceeding.²⁶ On October 15, 2019, the
2 District's Board of Directors passed a resolution approving the terms of the Settlement and the
3 Settlement Agreement.²⁷

4 3. SUMMARY OF TERMS OF THE SETTLEMENT

5 The Parties have agreed to the terms as set forth in the attached Settlement Agreement.
6 The following is a brief summary of the key terms of the Settlement agreed to by the Parties
7 following good faith negotiations at arms' length. It is a summary only and is not intended to
8 change or modify any of the terms of the Settlement Agreement:

9 A. Rescission of the Lab Purchase Agreement.

10 The Parties agree to rescind the Lab Purchase Agreement (the "Rescission"), and each
11 Party shall take the necessary steps to ensure that all payments, benefits, or gains received through
12 the Lab Agreements are returned to the other party, except that the District shall retain the right to
13 collect on \$440,000 of patient charges generated as a result of work performed by the Lab and
14 invoiced under the Hospital's billing system during the period in which the Lab Agreements were
15 in effect. Cadira shall return the Lab Purchase Price of \$2,500,000 to the District (the "Lab
16 Credit").

17 B. Termination of the Lab Management Agreement.

18 The Parties will terminate the Lab Management Agreement concurrent with rescission of
19 the Lab Purchase Agreement.

20 C. Termination of the APA.

21 The Parties will terminate the APA.

22 D. The Credit Agreement.

23 The Parties agree that the Lab Credit shall be immediately applied to discharge the Lab
24 Indebtedness. In partial repayment of the \$743,000 advanced to the District by Cadira, the District
25 shall make a single payment of \$300,000 to Cadira (the "Cash Settlement Amount"). The balance

26 ²⁶ See Brandon Decl. at ¶ 4-7.

27 ²⁷ Brandon Decl. at ¶ 4.

1 of the Credit Line Advance, less the Cash Settlement Amount, shall be repaid in full as an offset
2 against the District's expenses and the District's expenses shall correspondingly be deemed repaid
3 in full as a result of such offset. Upon receipt of the Cash Settlement Amount, all security
4 interests and liens granted to Cadira in or on any asset of the District shall be terminated, released,
5 and discharged in full. [Settlement Agreement at 1.]

6 4. STATEMENT OF JURISDICTION AND VENUE

7 The Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334.
8 This is a core proceeding pursuant to 28 U.S.C. § 157(b). The statutory predicates for the relief
9 sought herein are Rules 1001 and 9019 of the Federal Rules of Bankruptcy Procedure (the
10 "Bankruptcy Rules"). *See* Fed. R. Bankr. P. 1001 ("[t]he Bankruptcy Rules and Forms govern
11 procedure in cases under title 11 of the United States Code); *see also In re City of Detroit*, 524
12 B.R. 147, 168 (Bankr. E.D. Mich. 2014) (applying Rule 9019 in a Chapter 9 case); *In re City of*
13 *Stockton*, 486 B.R. 194, 195 (Bankr. E.D. Cal. 2013) (exploring "whether a chapter 9 municipal
14 debtor must obtain court approval under Federal Rule of Bankruptcy Procedure 9019 of any
15 compromise or settlement it makes during the course of the chapter 9 case," explaining that
16 compliance with the rule is optional, and that "11 U.S.C. § 904 gives a chapter 9 debtor freedom
17 to decide whether to ignore or to follow the Rule 9019 compromise-approval procedure").

18 5. LEGAL ANALYSIS

19 The Court has the authority to approve a compromise of controversy:

20 On motion by the trustee and after notice and a hearing, the court
21 may approve a compromise or settlement. Notice shall be given to
22 creditors, the United States trustee, the debtor, and indenture trustees
as provided in Rule 2002 and to any other entity as the court may
direct. Fed. R. Bankr. P. 9019(a).

23 It is well established that courts in this Circuit strongly favor "compromise and not
24 litigation for its own sake," *In re A & C Props.*, 784 F.2d. 1377, 1381 (9th Cir. 1986), and thus
25 provide bankruptcy courts with "great latitude in approving compromise agreements." *Woodson*
26 *v. Fireman's Fund Ins. Co. (In re Woodson)*, 839 F.2d. 610, 620 (9th Cir. 1988); *see also In re*
27 *Stein*, 236 B.R. 34, 37 (D. Oregon 1999) ("Pursuant to Bankruptcy Rule 9019(a), compromises are
28 favored in Bankruptcy").

1 However, in order to approve a compromise, a bankruptcy court must find that the
2 compromise is "fair and equitable." *See, e.g., Woodson, supra*, 839 F.2d at 620. Courts in the
3 Ninth Circuit generally apply the following four factors when determining whether to approve a
4 compromise under FRBP 9019:

5 (i) the probability of success in the litigation; (ii) the difficulties, if
6 any, to be encountered in the matter of collection; (iii) the
7 complexity of the litigation involved, and the expense,
8 inconvenience, and delay necessarily attending it; [and] (iv) the
9 paramount interest of the creditors and a proper deference to their
10 reasonable view in the premises.

11 *A&C Properties*, 784 F.2d at 1381. As set forth below, an analysis of the four factors, applying
12 the "lowest point in the range of reasonableness" standard articulated by the Ninth Circuit in *In re*
13 *Milden*, 111 F.3d 138 (9th Cir. 1997) clearly favors compromise over proceeding with further
14 litigation.

15 A. The Probability Of Success In Litigation Favors Settlement

16 A bankruptcy court is not required to decide the questions of law and fact raised in the
17 controversies sought to be settled, nor is it required to determine whether the settlement presented
18 is the best one that could possibly have been achieved - rather, it is sufficient that the settlement
19 not fall "below the lowest point in the zone of reasonableness." *Newman v. Stein*, 464 F.2d. 689,
20 698 (2d Cir. 1972); as regularly applied in the Ninth Circuit, see, e.g., *In re Pac. Gas & Elect.*, 304
21 B.R. 395, 417 (N.D. Cal. 2004); *In re Rake*, 363 B.R. 146, 152 (Bankr. D. Idaho 2007); *see also*
22 10-9019 *Collier on Bankruptcy* P 9019.02 (16th Ed. 2014). Courts have held that the trustee is
23 only required "to establish to the reasonable satisfaction of [the Court] that, all things considered,
24 it is prudent to eliminate the risks of litigation to achieve specific certainty though it might be
25 considerably less (or more) than were the case fought to the bitter end." *In re Aloha Racing*
26 *Found., Inc.*, 257 B.R. 83, 88 (Bankr. N.D. Ala. 2000). Ultimately, "[t]he purpose of a
27 compromise agreement is to allow the [debtor] and the creditors to avoid the expenses and
28 burdens" associated with litigating "sharply contested" claims. *In re A&C*, 784 F.2d. at 1380.

 The Transactions were designed to allow the Hospital to continue operating and to provide
funding of approximately \$1,300,000 for the full repayment of secured indebtedness and partial

1 repayment of general unsecured creditors. In furtherance of that goal, the District sold
2 substantially all of its assets to Cadira, and Cadira advanced \$743,000, which sum permitted the
3 District to continue operations. Additionally, the Transactions contemplated the District's
4 purchase of the Lab from Cadira to allow for further streams of revenue. Due to changed
5 circumstances, Cadira was unable to effectuate the Sale under the APA. The Settlement seeks to
6 unwind these Transactions without incurring the risk, cost, and delay of litigation.

7 Under the Credit Agreement, Cadira presently holds a security interest in all of the
8 Debtor's assets. Cadira is consenting to release the security interest, and rescind the Lab Purchase
9 Agreement. As the Lab is currently non-operational and is not generating any further revenue, the
10 efficient unwinding of the Lab Purchase and the return of the District to its original position prior
11 to the Lab Purchase Agreement is critical to the District's ability to move ahead with its
12 operations, as well as its ability to formulate a plan of adjustment in the Chapter 9 Case.
13 The District believes that if it were to fully litigate these matters, it would have a reasonable
14 possibility of success in establishing that Cadira breached the APA and that the District is entitled
15 to damages. Cadira has alleged that it has defenses to any claims that the District would assert.
16 However, as with any litigation, the outcome of these disputes is uncertain, and litigating these
17 issues would be expensive for the Debtor. As such, further litigation could well result in an
18 outcome less favorable to the Debtor, since the Debtor could incur significant expenses involved
19 in litigation, only to obtain a smaller (or no) recovery. Therefore, in terms of probability of
20 success, the District believes that approval of the Settlement Agreement is clearly in the best
21 interest of creditors.

22 B. The Difficulties Of Collection Are Weighty And Favor Settlement

23 The District is informed that Cadira is an entity that was primarily established to facilitate
24 the Transactions.²⁸ However due to changed circumstances, Cadira was unable to perform.
25 [Settlement Agreement at p. 2.] As such, Cadira will likely be a difficult collection target, and the

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27 _____
28 ²⁸ Bostic Decl. at ¶ 4.

1 District will incur significant expenses collecting on any judgment rendered in its favor. Thus,
2 this factor augers in favor of the proposed settlement.

3 C. Litigating The Proceeding Would Cause Expense, Delay and Inconvenience to the
4 Debtor

5 The Transactions at issue, and the disputes that arose out of them, are complex. Litigating
6 these disputes would require significant expense and inconvenience. Further, litigating these
7 matters would hinder the District's efforts to formalize and prosecute its plan of adjustment. The
8 District has analyzed the expense necessary to litigate the disputes, and believes that it is unlikely
9 that there would be any plausible increase in recovery (especially as further litigation could result
10 in a less advantageous outcome for the District, even without factoring in the expenses of
11 litigation). Therefore, in terms of time and money saved, the District believes that approval of the
12 Settlement Agreement is in the best interest of the District and its creditors. The District believes
13 that it is largely receiving what it would otherwise request in compensation from Cadira. The
14 Settlement Agreement is clearly in the paramount interest of creditors.

15 6. CONCLUSION

16 In its business judgment, the District believes that entering into the Settlement Agreement
17 is fair and equitable and in the best interest of creditors. Therefore, the District respectfully
18 requests that this Court enter an Order approving the Settlement Agreement and authorizing the
19 District to take any action necessary to effectuate the settlement contemplated herein.

20
21 DATED: October 22, 2019

BROWN RUDNICK LLP

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23 By:



24 CATHRINE M. CASTALDI
25 Attorneys for Debtor
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DECLARATION OF WILLIAM BOSTIC

I, WILLIAM BOSTIC, declare as follows:

1. From March 2018 until September 2019, I served as the Administrator for Surprise Valley Health Care District (the “District” or the “Debtor”), debtor in the above-captioned chapter 9 case (the “Chapter 9 Case”). Prior to becoming the Administrator for the District in March 2018, I served as its Assistant Administrator from 2004 to 2014.

2. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and belief and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

3. I make this Declaration in support of the District’s Motion for Order Approving Settlement (the “Motion”) filed concurrently herewith. Unless otherwise stated herein, all capitalized terms shall have the same meaning as in the Motion or supporting Memorandum thereto.

4. I am informed and believe that the District is a special health care district formed under the California Local Healthcare District Law. The District operates medical facilities known as the Surprise Valley Community Hospital (the “Hospital”) and the Surprise Valley Clinic (the “Clinic”). I am informed that Cadira is an entity that was primarily established to facilitate the Transactions.

5. The District is located in Northeast California, at a 5,000 foot elevation in Cedarville, east Modoc County. I am informed and believe that since April 16, 1986, the District has provided medical services to approximately 1,500 people in the following communities: Fort Bidwell, Cedarville Rancheria, Warner Mountains Indians, Lake City, Cedarville, and Eagleville (the “Communities”).

6. I am informed and believe that the District provides services to patients from all over Modoc County who make the trip over Cedar Pass and into Surprise Valley. The Hospital has twenty-six beds—twenty-two skilled nursing beds, one acute bed, and three swing beds. It has an emergency room, with a physician on standby at all times. The hospital also provides a full service laboratory, x-ray services, and operates a 24-hour ambulance service with a full-time

1 paramedic on staff. Many community members are EMT-certified and serve as part-time and on-
2 call staff during the week.

3 7. I am informed and believe that, prior to the bankruptcy filing, the District has
4 struggled to maintain operations in light of significant economic challenges. Facing mounting
5 creditor lawsuits and operating at a negative cash flow of \$70,000 to \$100,000 per month, with
6 nearly \$4,000,000 in accrued and unpaid obligations, the District was faced with the choice of
7 closing the Hospital and Clinic or proceeding with an orderly transition of its operating functions
8 through a Chapter 9 bankruptcy filing.

9 8. I am informed and believe that, on January 3, 2018, a trade creditor, Prime Time
10 Healthcare, levied the District's bank accounts, jeopardizing the District's ability to meet payroll
11 and other financial obligations.

12 9. I am informed and believe that, on January 4, 2018 ("Petition Date"), Debtor filed a
13 voluntary petition pursuant to Chapter 9 of Title 11 of the United States Code, thereby
14 commencing the above-captioned Chapter 9 Case.

15 10. The Transactions at issue in the Motion were designed to allow the Hospital to
16 continue operating and to provide funding of approximately \$1,300,000 for the full repayment of
17 secured indebtedness and partial repayment of general unsecured creditors.

18 11. The Transactions consist of the following agreements, entered into on February 26,
19 2018: (i) the Credit Agreement, between the District, as borrower, and Cadira as lender, a true and
20 correct copy of which is attached to the Appendix as **Exhibit B**; (ii) a Limited Liability Company
21 Purchase Agreement, between the District, as purchaser, and Cadira, as seller (the "Lab Purchase
22 Agreement") a true and correct copy of which is attached to the Appendix as **Exhibit C**; (iii) the
23 Lab Management Agreement, between the District as owner, and Cadira, as manager (the "Lab
24 Management Agreement", and collectively with the Lab Purchase Agreement, the "Lab
25 Agreements") a true and correct copy of which is attached to the Appendix as **Exhibit D**; and (iv)
26 the APA (as amended, restated, extended, supplemented or otherwise modified from time to time)
27 between the District, as seller, and Cadira, as purchaser, a true and correct copy of which is

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1 attached to the Appendix as **Exhibit E** (together with the Credit Agreement, the Lab Purchase
2 Agreement, the Lab Management Agreement, the "Agreements").

3 12. In furtherance of the Transactions, the District entered into the Credit Agreement
4 wherein Cadira financed the District's purchase of member interests in Serodynamics, LLC a
5 Colorado limited liability company (the "Lab") owned by Cadira, executed a management
6 agreement whereby Cadira would manage the Lab, and received approximately \$743,000 for
7 operations. The Lab Purchase from Cadira was intended to allow for further streams of revenue.
8 The Transactions were all incidental to the proposed Sale of the District's assets to Cadira. The
9 Sale structure allowed the Hospital to continue operating pending closing and funded
10 approximately \$743,000 in operating expenses. If the Transactions had closed, the Sale would
11 have provided for the full repayment of secured indebtedness and partial repayment of general
12 unsecured creditors.

13 13. I am informed and believe that the Lab is currently non-operational and is not
14 generating any further revenue. As such, the efficient unwinding of the Lab Purchase Agreement
15 is critical to the District's ability to move ahead with its operations, as well as its ability to
16 formulate a plan of adjustment in the Chapter 9 Case.

17 14. The District has not received any higher or better offer than the proposed Sale
18 Transaction for the District's assets. The District is not aware of any other offers to acquire the
19 District's assets.

20 I declare under penalty of perjury under the laws of the United States of America and the
21 State of California that the foregoing is true and correct.

22 Executed this 22nd day of October, 2019, at _____, California.

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WILLIAM BOSTIC

DECLARATION OF DON BRANDON

I, DON BRANDON, declare as follows:

1. I am the current Administrator at the Surprise Valley Community Hospital at Surprise Valley Health Care District (the "District" or "Debtor"), debtor in the above-captioned bankruptcy proceeding. On October 8, 2019, the Board of Directors of the District passed a resolution designating me as the signatory on the District's behalf in relation that certain Settlement Agreement and Mutual Release (the "Settlement Agreement") by and between the District on the one hand, and Cadira Group Holdings, LLC ("Cadora") on the other hand.

2. I have personal knowledge of all facts described herein, except those stated upon information and belief, and, as to those, I am informed and believe them to be true following my review of such documents. If called upon to testify, I would and could testify to the contents of this Declaration.

3. I make this Declaration in support of the District's Motion for Order Approving Settlement (the "Motion") filed concurrently herewith. Unless otherwise stated herein, all capitalized terms shall have the same meaning as in the Motion or supporting Memorandum thereto.

4. The District and Cadira (the "Parties") have entered into the Settlement Agreement, a true and correct copy of which is attached to the Appendix of Exhibits as **Exhibit A**, which, if approved by the Court, will provide final resolution to the dispute between the Parties. On October 15, 2019, the District's Board of Directors passed a resolution approving the terms of the Settlement and the Settlement Agreement.

5. I am informed and believe that the terms of the settlement between the District and Cadira represent the best possible deal for the District's creditors, optimized against the interests of the patients and residents of the District.

6. I am informed and believe that the District has viable arguments that Cadira breached the APA. However, as litigation is costly and outcomes are unpredictable, it is also possible that Cadira could obtain recovery on the underlying agreements.

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DON BRANDON